Oil and Gas News Briefs
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Australia LNG project may run at less than full production

(Reuters; Aug. 19) - Spending cuts and weak global liquefied natural gas prices have forced the operator of the $18.5 billion Gladstone LNG project in Australia to consider running the plant at less than full tilt, an unusual move for the industry. It's a sign of how the LNG market — long dominated by large plants running at maximum capacity for cost efficiency — will evolve with exports from a new breed of projects: They are the world's first fed by coal-seam gas in Australia, and U.S. plants fed by gas from the grid.

Traditionally, LNG producers spend billions of dollars building large plants connected to conventional gas fields, with most of their output sold to long-term customers. Operating costs are low once built, which spurs them to run at full capacity to boost returns. But the new plants fed by coal-seam gas have to rely on drilling hundreds of wells a year, an ongoing cost that traditional plants don't face. As a result, they could become more like swing producers, said Saul Kavonic, Wood Mackenzie head analyst for Australasia.

Gladstone is one of three new Australian coal-seam gas LNG projects that have started up since early 2015. Santos has been squeezed by a heavy debt load taken on to build Gladstone, where it is the lead operator, and by low oil and LNG prices, sapping funds needed to drill its coal-seam gas wells. As a result, it has opted to buy more gas from third-parties to meet its LNG contracts. Santos said Aug. 19 it would be willing to run the two-production-train plant below its full capacity of 7.8 million metric tons a year.

Australia LNG producer says buyers will renegotiate for lower prices

(Bloomberg; Aug. 19) - Woodside Petroleum expects lower liquefied natural gas prices as it renegotiates short-term contracts and said buyers across Asia will increasingly resist deals that restrict any reselling of the fuel. The plunge in crude means LNG suppliers are being forced to offer lower prices for oil-linked LNG deals while buyers demand more flexible terms amid a global supply glut, according to Woodside CEO Peter Coleman. Woodside holds interest in two LNG projects in Australia: Pluto, which started up in 2012, and North West Shelf, which has been producing since 1989.

“It’s a buyers’ market at the moment and there’s no doubt about that,” Coleman said Aug. 19. “As we renegotiate contracts they will need to reflect today’s market, and today’s market is lower than it was in 2013, so I can’t tell you I’m going to get the same price.” Woodside is in talks for new short-term offtake deals for LNG from its Pluto field after a previous wave of contracts signed in 2013 are due to expire in 2017, he said. Asian spot prices for LNG have slumped by about 60 percent since September 2014.

Coleman doesn't expect existing contracts to be renegotiated but said it will be more difficult to impose destination-restriction clauses on buyers across Asia that want the freedom to shift to being international sellers from traditional importers. Japan's Jera Co., a joint venture between Tokyo Electric Power and Chubu Electric Power, has said it will not sign any contracts with the clauses. Producers are facing headwinds from the global oversupply, which has given buyers stronger bargaining power.

Korea looks upstream in shift from long-term LNG supply contracts

(Reuters; Aug. 22) - Korea Gas, South Korea's sole purchaser of liquefied natural gas, is looking to take delivery of the fuel from its own overseas output to ensure a stable supply, the Yonhap News Agency reported Aug. 22, citing the KOGAS chief executive. CEO Lee Seung-hoon said global LNG trade has become a buyers' market amid falling demand. "As demand drops, major suppliers are seeking to provide us with investment opportunities. Through this, if we drill gas and bring it into (Korea) after liquefying it, we can bring down costs. … Now is the right time to invest in resource development."

KOGAS buys about 30 million metric tons of LNG a year, and has long been the world's biggest single buyer of the fuel. However, it will be surpassed this year by Japan's Jera Co, a joint-venture set up by Tokyo Electric Power and Chubu Electric Power to buy fuel for power stations. Jera will import about 40 million tons of LNG this year.

South Korea, the world's second-largest LNG buyer after Japan, imports nearly all of its energy resources. It has been active in overseas exploration and production projects since 2008 to secure its fuel needs. Lee, who took his post a year ago, said KOGAS plans to source LNG at cheaper prices through its own production during his remaining two years of tenure. "We need to shift away from a conventional supply method of bringing LNG under high-priced long-term contracts from overseas," he said.

CEO says Japan may have to trade to get LNG contract flexibility

(The Australian Business Review; Aug. 22) - Japan will need to pay more for its liquefied natural gas contracts if it succeeds in its legal effort to unwind long-held destination restrictions on its gas cargoes, Woodside Petroleum CEO Peter Coleman said. Japan's influential Ministry of Economy, Trade and Industry is reportedly preparing a legal challenge to contest certain LNG contract clauses as anti-competitive in what is shaping up as a potentially significant risk to Australia's producers.

The ministry wants to unwind contractual restrictions that specify the destination of the LNG cargoes, which limits the ability of Japanese utilities to sell any surplus gas to other markets. The legal fight opens up the possibility that many of the long-term offtake agreements underpinning Australia's $200 billion-plus of LNG projects may need to be rewritten. But Coleman said he is not concerned about the potential change.

"When these (destination) clauses are put into contracts they are not put in there in isolation; they are generally put in there as a trade-off against something else," he said. "It has value to us as a seller and the buyer gets something else back in another part of the contract. If existing contracts were opened up, we would expect something in return for other accommodations in other parts of the contract." That could be a higher price or other conditions, he said. Woodside has ownership stakes in two Australian LNG plants.

Japan's utilities continue to struggle with nuclear plant restarts

(Interfax Global Energy; Aug. 18) - Japan restarted a reactor at its Ikata nuclear plant this week, increasing the number of operating reactors in the country to three. However, safety concerns over the Sendai nuclear plant could result in its two reactors going offline for months, leaving a supply gap to be potentially filled by LNG. And although Ikata 3 has restarted, its future is uncertain. Residents filed a case to halt the restart in May, and even though the court has yet to rule, Tetsunari Iida, director of the Institute for Sustainable Energy Policies in Japan, said it "may order a stop to the restart."

The reactors at the Sendai plant are scheduled to go offline in October for maintenance, and the local governor's consent is required to restart them after work is complete. The newly elected governor, Satoshi Mizatono, has voiced concerns over safe operation of the plant because of the earthquake that struck neighboring Kumamoto region in April. If he is unsatisfied with the plant's safety, he could keep the reactors offline indefinitely. Japan's utilities are struggling to restart nuclear power plants against public opposition.

A similar case to the one brought against Ikata halted the restart of two reactors at the Takahama plant earlier this year. Public opposition has been successful in slowing the pace of restarts, but is not expected to dissuade the utilities from trying, said Andrew DeWit, in the school of policy studies at Rikkyo University. "I think the nuclear-owning utilities will try hard to restart their assets." They have spent at least 3.3 trillion yen ($34 billion) to upgrade their reactors to match new safety standards. "That's a lot of money."

Thailand plans to boost LNG imports to 5 million tons a year by 2017

(Reuters; Aug. 18) - Thailand's largest energy firm PTT plans to import at least 5 million metric tons of liquefied natural gas in 2017, up from 3 million tons this year as local gas production fades. State-controlled PTT expects to conclude talks in September with several suppliers including Shell and BP to buy LNG under long-term contracts, CEO Tevin Vongvanich said at a news conference Aug. 18.

Thailand, which uses gas for nearly 70 percent of its power generation, has become increasingly reliant on LNG imports as its own domestic gas fields are being depleted. PTT is the nation's sole gas provider. "As domestic resources decline, we are at the last phase of gas production," Tevin said, adding that PTT is looking to buy at least 3 million tons of LNG a year on long-term contracts, as well as buying in spot markets. Thailand currently has a long-term contract with Qatar for up to 2 million tons of LNG per year.

Hit by the decline in global oil prices, PTT has cut its 2016 investment budget and will focus more on infrastructure including LNG terminals and gas pipelines, Tevin said. PTT is in process of doubling the intake capacity of its LNG import terminal at Map Ta Phut in the country's east, which is expected to be completed in 2017, Tevin said.

FERC dismisses application for LNG terminal in Maine

(CBC News; Canada; Aug. 18) - The application to build a $2 billion liquefied natural gas import/export terminal in Robbinston, Maine, less than a couple of miles across the water from St. Andrews, New Brunswick, Canada, was dismissed Aug. 17 by the U.S. Federal Energy Regulatory Commission. This marks the end of 10 years of efforts by Downeast LNG, the group behind the proposal. In May, Downeast LNG put the project up for sale. The project’s majority shareholder is a New York investment firm.

"There has been essentially no progress at all toward completion of an application in the past nine months. Downeast has presented nothing to persuade us its situation is likely to change in the immediate future," FERC said. Save Passamaquoddy Bay Canada co-chair Jessie Davies said the group had been expecting the decision. "We weren't totally surprised because we'd been in touch with energy consultants and the province, and you look at the markets for gas and you realize it wasn't financially feasible," she said.

Also, the Canadian government had banned LNG tankers from entering Head Harbour Passage, the only way for large ships to get into Passamaquoddy Bay. "Really, for us, there wasn't any gain, and the whole ecology of the bay and environmental health would have been at risk,” Davies said. The export plant was proposed with capacity to liquefy 3 million metric tons of gas per year.

Supporters of LNG project in Oregon have not given up

(Mail Tribune; Medford, OR; Aug. 19) - Though federal regulators denied approval in March for the proposed Jordan Cove LNG project in Coos Bay, Ore., supporters ran a television ad campaign in prime time during the Olympics to tout the project’s economic benefits. "When the Jordan Cove Energy Project is built," the ad said, "it will create hundreds of permanent, real jobs for local workers." The campaign in television, print, radio and the web was funded by Boost Southwest Oregon.

The Federal Energy Regulatory Commission ruled against the liquefied natural gas plant and accompanying 232-mile gas pipeline because it found there was insufficient demand for the LNG, and the negative impacts to landowners along the pipeline route outweighed any public benefits. The years-long battle for the project is not necessarily a closed case, however. FERC is currently deciding whether to rehear the project.

"It could be any day, it could be in two or three months," said Robyn Janssen, of Rogue Riverkeeper, which opposes the pipeline. Michael Hinrichs, spokesperson for Jordan Cove LNG, said he was pleased with the ad and had reviewed it before it aired. As Jordan Cove awaits a FERC rehearing decision, it continues to seek customers for the LNG the plant would produce. Boost Southwest Oregon co-chairman Mark Wall said, "There's a sense that after FERC's decision the project is dead. We want to remind people that it's still a viable project. It's far from dead."

Debate over pipeline to LNG plant continues in B.C. community

(Squamish Chief; Squamish, BC; Aug. 17) - The Woodfibre LNG project cleared one of its final regulatory hurdles with last week's approval of FortisBC's provincial environmental assessment certificate for a short gas pipeline to the liquefaction plant, but that is not dampening the fight of those opposed to the $2 billion liquefied natural gas export project just north of Vancouver.

"This latest decision to approve the FortisBC Eagle Mountain pipeline trivializes the concerns of residents … and disregards the many issues raised by the … First Nations," said Delena Angrignon, co-founder of My Sea to Sky, which opposes Woodfibre LNG. "Approving FortisBC's use of a gas-powered compressor … further aggravates B.C.'s ability to progress toward its legislated greenhouse-gas reduction targets," she said. The developer, an Indonesian company, has not decided whether to build the plant.

Acting Squamish Mayor Doug Race said he wasn't surprised the province granted conditional approval for the pipeline project. "This is a pipeline, this isn't something that is brand new. These things are all over the province," he said. "I think Fortis should actually be commended for responding to the community. They have taken steps to move the compressor station, which was a source of concern with some people." Race said there are some who may never change their minds about opposing the project.

Landowners reach agreement, lift protest at Papua New Guinea LNG

(Radio New Zealand; Aug. 19) - Papua New Guinea's LNG project is set to resume normal operations after protesting landowners in Hela province reached an agreement with the government. For almost two weeks, landowners in the region where the gas fields are centered have blocked access to the project's gas conditioning plant in Hides. They have been demanding payment of hundreds of millions of dollars in outstanding project commitments from the government.

Following negotiations, landowners from two petroleum license areas in Hides signed a memorandum of understanding with the government. PNG's Petroleum and Energy Minister Nixon Duban agreed to honor all the issues in the landowners' petition and said he would take it for approval to the National Executive Committee. The government has said the money owed to the landowners is saved in trust funds, and has indicated that delays in payments were due to an ongoing process of verifying legitimate landowners.

The government showed the landowners printouts of royalty money parked in bank accounts for them. Following the signing, a clan-vetting process is being expedited to establish the legitimate landowners, following which landowners are expected to be paid within a month. The Hides landowner representatives promised to lift their blockade Aug. 19. The $19 billion ExxonMobil-led LNG project started operations in 2014.

Asia 'awash' in propane oversupply, dragging down prices

(Platts; Aug. 18) - Liquefied petroleum gas (LPG), which mostly is propane, is in oversupply around the world. A steady influx of cargoes from the U.S., Iran's aggressive move to push cargoes at competitive prices, slower-than-expected demand growth in China on the back of a sluggish economy and Japan's inventory levels hovering at multi-year highs have all contributed to supply in Asia far outweighing demand, creating a glut not seen in recent years.

"Asia is currently awash with LPG supplies," Andrew Echlin, global oil products analyst at Energy Aspects, wrote in a research report on LPG titled "Hero to Zero" published this month. Plentiful U.S. exports, aided by tanker rates falling to multi-year lows, have prompted gas carriers to put LPG into floating storage off Singapore. Energy Aspects said in the report that at least seven VLGCs (very large gas carriers) were parked off the coast of Singapore, with some anchored for weeks.

The oversupply has pulled down prices sharply. The price of propane imported to Japan was $271.50 a ton (about 52 cents a gallon) on July 29, its lowest since Platts started publishing its numbers 10 years ago. In addition to bulging supplies and slower-than-expected China's demand growth, propane in Asia has come under downward pressure as third-quarter consumption is seasonally weak. Adding to the oversupply are rising exports from Iran, where LPG exports grew by about 54 percent from 2014 to 2015.

First Nation strips chiefs of titles for supporting oil sands pipeline

(Vancouver Sun; Aug. 18) – The extraordinary decision by a Haida clan to strip two of its hereditary chiefs of their titles for secretly supporting the Enbridge Northern Gateway oil sands pipeline is being closely watched by First Nations across Canada. The rebuke, delivered last week in an elaborate ceremony witnessed by more than 500 people, came as the Haida Nation rejected what they say is a growing trend by companies to enlist the support of hereditary chiefs as a way of claiming broad First Nations' support.

"This is an absolutely huge decision and I think it is a wake-up call to the hereditary system of governance and leadership," said Grand Chief Stewart Phillip of the Union of B.C. Indian Chiefs. On Aug. 13, clan members stripped Carmen Goertzen and Francis Ingram of their titles, effectively removing them as representatives of two houses, the Yahgulaanaas Janaas of Daadens and the Litjaaw Yaahl Naas. Goertzen, a well-known Haida artist, held the position for 25 years. Ingram had only been appointed a year ago.

The Haida are comprised of 22 clans, each overseen by hereditary chiefs. An elected council represents the Haida Nation. The men were part of a group of eight who signed a letter to the National Energy Board in March supporting Northern Gateway's request for more time on its application for the oil sands pipeline from Alberta to Kitimat, B.C. Earlier this summer, a court overturned federal approval of the project. This isn't the first time First Nations have protested the support given to Enbridge by hereditary chiefs.

Protests lead to stop of construction work on North Dakota oil line

(Wall Street Journal; Aug. 18) - Work on a 1,154-mile pipeline that would carry oil from North Dakota to Illinois was halted this week near the Missouri River, amid growing confrontations between members of the Standing Rock Sioux tribe and police guarding a construction site. Native American groups and environmentalists have staged protests to block the Dakota Access pipeline for months from a "spirit camp" outside a pipeline construction site. The groups say the pipeline threatens sacred sites near the Standing Rock reservation and poses a risk to the tribe's drinking-water supply.

In July, environmental group Earthjustice filed a lawsuit on behalf of the tribe in federal court against the U.S. Army Corps of Engineers, which authorized the $3.7 billion project, seeking a preliminary injunction. A hearing in the case is scheduled for next week. In recent days, protesters have clashed with police and threatened company officials as they blocked access to a construction site 34 miles south of Mandan, N.D., according to a lawsuit filed Aug. 15 by Dakota Access, the pipeline's developer.

The company is asking a judge to grant a restraining order against the tribe. The opposition raises echoes of the battle over the Keystone XL oil pipeline that President Barack Obama rejected last year. The Dakota Access pipeline, scheduled to be completed by the end of the year, will be the major conduit for North Dakota's Bakken Shale oil, largely replacing railcars. The pipeline will be able to carry as much as 470,000 barrels of oil a day, but its backers said it will likely be expanded to 570,000.

Canadian producer offers oil and gas assets to pay property tax bill

(Calgary Herald; Aug. 18) - Calgary-based Perpetual Energy has proposed donating its interests in assets and resource rights to an Alberta county as part of a desperate attempt to cope with a property tax bill the company said far outstrips its ability to pay. The proposal comes as oil and gas companies have lobbied municipalities across Alberta for property tax breaks in a bid to cut costs in the oil-price rout, with limited success. Perpetual Energy produces an average 16,000 barrels oil equivalent per day.

Perpetual said its $41,500 Athabasca County tax bill would swallow up all of its cash flow generated by oil and gas reserves in the municipality. CEO Sue Riddell Rose said the producer has faced a similar problem in other municipalities, and not just this year. Riddell Rose has proposed to Athabasca County and other municipalities that Perpetual would give them its interests in oil and gas assets and resource rights, with offers to potentially operate the assets on their behalf. It is seeking relief in about 17 counties.

Athabasca County has so far rejected Perpetual's pleas for relief, which also included a request to cut its tax bill to $1. Al Kemmere, president of the Alberta Association of Municipal Districts and Counties, said many of his members have received requests for tax relief from the oil and gas sector. Canadian Natural Resources, the country's largest heavy-oil and gas producer, is asking municipal governments across Alberta for a 30 percent tax cut, warning rising tax bills could force the company to abandon wells early.

Michigan iron mine teams up with utility for new gas-fired power plant

(Milwaukee Sentinel; Aug. 15) - WEC Energy Group will build gas-fired power plants at two sites in Michigan's Upper Peninsula, a move that will allow closure of the Presque Isle coal plant on Lake Superior by 2020. The utility company, based in Milwaukee, on Aug. 15 announced an agreement with a mining company to build the $255 million power plants. The 20-year sales agreement is with Cliffs Natural Resources, operator of the Tilden iron-ore mine near Marquette, Mich.

The cost of the project will be shared by Cliffs and other Michigan customers of WEC Energy. The new generation plants will be rated at a combined 170 megawatts of power. If approved by Michigan's Public Service Commission, they would be built by 2019, according to WEC. Cliffs has been at odds with WEC in the past several years over electricity costs. "Cliffs views this agreement as critical to sustaining and enhancing the long-term competitiveness of our Tilden Mine," said CEO Lourenco Goncalves.